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~~TOP SECRET~~**GENERAL****1. Italy may join Balkan alliance if preconditions are met:**

[REDACTED]

According to Turkish prime minister Menderes, the Italian ambassador in Ankara indicated recently that Italy would be willing to participate in the projected Balkan alliance if: (1) Greece, Turkey, and Yugoslavia jointly invite Italy to become an original signatory; (2) the Balkan alliance formula is in accordance with the NATO provision for collective security action, with Yugoslavia obliged to act if the other three allies become involved in military action because of their NATO obligations; and (3) a Trieste settlement, together with a simultaneous Italian-Yugoslav nonaggression pact, precedes signature of the alliance.

Comment: This is the most positive indication to date that Italy may be seriously considering an early membership in the forthcoming Balkan alliance. Greece and Turkey would probably support the Italian conditions, but not to the point of jeopardizing the alliance.

Yugoslavia has indicated a willingness to consider Italy's association with the Balkan alliance following a satisfactory solution of the Trieste question, but there has been no official statement from Belgrade that it would conclude a nonaggression pact. Following President Tito's recent visit to Ankara, Turkish officials with whom he talked advised the American embassy that he was contemplating offering Italy such an arrangement.

SOUTHEAST ASIA**2. Vietnamese believe French considering withdrawal from Hanoi:**

[REDACTED]

Premier Ngo Dinh Diem and his political advisers believe that the French are seriously considering declaring Hanoi an

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[redacted] "open city" and transferring General Cogne's headquarters to Haiphong. Hatred of the French is at an all-time high and has been further exacerbated by the bishop of Phat Diem's allegation that French aircraft bombed a crowd of several thousand Vietnamese attempting to evacuate the bishop's diocese in the southern part of the delta.

One of Diem's advisers told the American consul that the Vietnamese were determined to use some 127,000 troops available to them in the north to defend Hanoi, and that plans were under consideration to retake the areas of heaviest Catholic population, Phat Diem and Bui Chu. The consul considers the plan unrealistic.

Comment: The chief French civil official in Tonkin told the American consul several weeks ago that the French might find it advisable to declare Hanoi an open city.

3. Australian minister sees early French withdrawal from Tonkin:

[redacted] Charge McClintock in Saigon reports that Australian minister Quinn agrees with other observers that in all probability the French will soon evacuate the Tonkin delta. He believes that during the withdrawal possibly half of the Vietnamese troops under arms will desert or be captured by the Communists. Quinn reportedly feels that the French will

be strongly tempted to embark directly from the Haiphong perimeter "for home."

[redacted]

Comment: It is likely that the Viet Minh is preparing to move as quickly as possible into areas which the French have evacuated or may be planning to evacuate. In the event that no cease-fire agreement is reached, the Viet Minh probably will lose no time in further testing any new French defenses or in attempting to inflict maximum losses on the French in any withdrawal toward Haiphong.

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4. Burmese unsuccessfully press Chou En-lai for non-interference commitments:

[REDACTED] During his recent visit to Rangoon, Chou En-lai responded favorably to only two of six points raised for discussion by Burmese premier Nu, [REDACTED]

[REDACTED] These two points were that the vague "five principles" embodied in the Sino-Indian agreement be applied to Sino-Burmese relations and that both countries agree to work for world peace.

Chou En-lai dodged Nu's proposal for a mutual guarantee not to seek the overthrow of each other's government. He refused to appeal to local Communists to seek their objectives by peaceful means without foreign assistance, and excused himself from commenting on the suggestion that Chinese residents in Burma either take out Burmese citizenship or refrain from indulging in Burma's politics. Moreover, Chou would not commit Peiping to negotiations looking to the final demarcation of the Sino-Burmese border.

Comment: Although the Burmese apparently feel that Chou's visit made a contribution to friendly relations between the two countries, his refusal to consider serious grievances can only strengthen Burma's growing suspicion of the imperialistic designs of Communist China.

5. Leftist Indonesian government may fall soon:

[REDACTED] The Greater Indonesian Association, the second largest party in the government coalition, has definitely decided to withdraw its representatives from the cabinet

and this action will cause the regime to fall, [REDACTED]

[REDACTED] The Nahladatul Ulama, the only Moslem party represented in the cabinet, is also becoming increasingly hostile toward the government.

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The reporting office believes that the Nahladatul Ulama will withdraw its support within a week and comments that "general signs" indicate that the government will fall in the near future.

Comment: In terms of voting strength in parliament, the withdrawal of these two parties from the government would be sufficient to bring about its downfall in the event of a straight party-line vote.

However, President Sukarno, who has identified himself increasingly with the present leftist cabinet, undoubtedly will use his administrative powers and great personal influence to prolong the life of the government.

NEAR EAST - AFRICA

6. Comment on the situation in Palestine:

The apparent return to an uneasy truce in Jerusalem after three days of extensive shooting and high tension can be viewed only as an interlude in the unresolved struggle. Israeli and Jordanian officials, by adopting a tougher attitude on border incidents, make possible the expansion of minor incidents in the future.

Responsible Arab leaders generally, and Jordanians particularly, are aware of Israeli military superiority and do not want war. Jordanian leaders, however, feel that they cannot survive popular resentment if they fail to react to flagrant Israeli aggression. Jordan's major hope in this situation appears to lie in its mutual defense treaty with Britain. Britain has accordingly been asked to send planes and airborne troops promptly in the event of an Israeli attack.

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In Israel, the apparent decline in Prime Minister Sharett's influence is noted by the British ambassador to Amman, who also is concerned over the violent attitude of Chief of Staff Dayan. On the other hand, Israeli dependence on American support and the possibility of British aid to Jordan are serious deterrents. While there is no evidence that Israel is ready to begin war with the Arabs, there remains the possibility that its leaders, frustrated by events, will turn, with strong domestic support, to such a solution.

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